

Farmers Home Administration Washington D.C. 20250

FmHA AN No. 2482 (1951) February 27, 1992

SUBJECT: Common Servicing Deficiencies Noted in Sample Review

of Entity Borrowers That Received Writedown or

Writeoff

TO: State Directors, District Directors, and County

Supervisors

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to alert field personnel of the subject deficiencies. The intended outcome of this notice is that all future loan servicing to entity borrowers, under FmHA Instruction 1951-S, will be processed accurately and in accordance with the regulation.

COMPARISON WITH PREVIOUS AN:

There has been no previous AN on this subject. This AN is being issued as a result of the Government Accounting Office (GAO) Audit of Entity Borrower Servicing.

IMPLEMENTATION RESPONSIBILITIES:

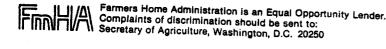
The GAO conducted an audit on a sample of all entity borrowers that received either a writedown or a writeoff in connection with 1951-S loan servicing. Deficiencies were noted and remedial recommendations were made to Farmers Home Administration (FmHA) by GAO. The National Office made a review of a sampling of cases to determine the nature of deficiencies and to facilitate accuracy in responding to GAO's recommendations.

The following deficiencies were noted. The percent figures represent the degree of non compliance in the sample:

- 1. Individual financial statements from entity members were not included in the application. 47 percent
- 2. Non FmHA debts were not verified and/or were not included correctly in DALR\$. 42 percent
- 3. ASCS payments and other farm income were not verified. 42 percent

EXPIRATION DATE: September 30, 1992

FILING INSTRUCTIONS: Preceding FmHA Instructions 1951-S



- 4. Projected expense, production, and/or commodity price figures did not reflect historic trends and/or State guidelines and no justification was provided. 39 percent
- 5. The constants used in DALR\$ were incorrect. 36 percent
- 6. The security priority of FmHA loans was not classified correctly. 33 percent
- 7. Loan principal and interest figures were incorrectly transferred to DALR\$ from the AI or DL screen. 28 percent
- 8. Appraisal used to establish net recovery value was over a year old, or there was no appraisal in the file. 25 percent
- 9. Year after deferral plan was not developed. 25 percent
- 10. Entity financial statement did not accurately include all debts. 22 percent
- 11. Chattel security was not released or otherwise accounted for on Form FmHA 1962-1. 22 percent
- 12. A copy of the lien instrument securing the Net Recovery Buyout Recapture Agreement was not properly prepared or was not in the file. 19 percent
- 13. Appraisal lacked adequate documentation to justify the appraised value. 17 percent
- 14. Security value on DALR\$ did not match the appraised value. 17 percent
- 15. New rates and/or terms for existing FmHA loans were not correct in DALR\$. 17 percent
- 16. There was greater than a 5 percent difference between the capitalization value and the market value on the real estate appraisal. 17 percent
- 17. Prior lienholder debt was incorrectly transferred from Form FmHA 440-32 to the Farm and Home Plan and then to DALR\$. 14 percent

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- 18. Original rates and/or terms for existing FmHA loans were not correct in DALR\$. 11 percent
- 19. The balance available was not transferred to DALR\$ correctly. 11 percent
- 20. Farm and Home Plan used for DALR\$ was not current or there were math errors. 6 percent

Prior to closing a debt restructuring or a net recovery buyout, servicing officials must review the above list of deficiencies in conjunction with any other checklist used for this purpose. Deficiencies found, as noted above, will be corrected before the closing. This is by no means a complete list. Servicing officials are encouraged to carefully review every case to be certain that the Government's financial interests are protected, at the same time providing eligible borrowers all servicing options to which they are entitled.

If you have any questions, please contact Charles W. Thompson, Farmer Programs Loan Servicing and Property Management Division, at 690-4011.

LA VERNE AUSMAN

Administrator